

Message Text

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SUBJ: EC AGRICULTURAL MINISTER'S 1978/79 PRICE PACKAGE

1. SUMMARY: IN DEBATE ON 78/79 PRICE PACKAGE, MAJORITY OF DANISH PARLIAMENT MEMBERS EXPRESSED SATISFACTION WITH OUTCOME OF AGRICULTURAL PRICE NEGOTIATIONS, WHICH ADMIN DALSAGER DESCRIBED AS WELL-BALANCED IN THAHIT WOULD RESULT IN ONLY MODEST INCREASES IN CONSUMER PRICES WHILE INCREASING FARMER INCOME AND EXPORT EARNINGS. FARM SPOKESMEN REGRET THAT AVERAGE 2.1 PERCENT PRICE RISE IN DENMARK ONLY COVERS HALF OF COST INCREASES BUT CONCLUDE THAT RESULT COULD HAVE BEEN MUCH WORSE (A LARGER REDUCTION IN PIGMEAT MCA'S) AND THAT THEY CAN LIVE WITH IT. TAKING ALL PLUSSES AND MINUSES INTO ACCOUNT, DANISH ANNUAL FARM INCOME BENEFITED TO THE TUNE OF 350 MILLION KRONER (\$61 MILLION), OR KR. 3,000 (\$530) PER FARM. SMALL OVERALL INCREASE IS CONSIDERED A PERSONAL VICTORY FOR AGCOMMISSIONER GUNDELACH AND HIS POLICIES. END SUMMARY.

2. THE AVERAGE INCREASE IN MIN FARM PRICES IN DENMARK AS A CONSEQUENCE OF THE MAY 8-12 AGREEMENT OF THE EC AGRI MIN WILL BE ABOUT 2.1 PERCENT, WHICH IS ESTIMATED TO INCREASE ANNUAL DANISH FARM PRODUCTION VALUE BY 275 MILLION KRONER (\$48 MILLION), OF WHICH 200 MILLION KRONER WILL ACCRUE FROM ADDED EXPORT EARNINGS, HOWEVER,
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ADJUSTING FOR PLUSES AND MINUSES (50 MILLION KRONER IN INCREASED SKIMMILK FEEDING SUBSIDIES AND 75 MILLION KRONER SAVINGS IN THE MILK CO-RESPONSIBILITY LEVY MINUS THE LOSS OF 70 MILLION IN PIGMEAT MCA'S),

THE OVERALL GAIN IS ABOUT 350 MILLION KR (\$61 MIL), OR KR. 3,000 (\$530) PER FARM. ALL IN ALL, THE GAIN IS ABOUT 100 MILLION KR MORE THATN WOULD HAVE RESULTED FROM THE COMMISSION'S PROPOSAL.

3. ONLY CONSUMER PRICES FOR MILK AND BUTTER WILL INCREASE DIRECTLY AS A RESULT OF THE AGREEMENT, AND THE PRICE RISE WILL BE LIMITED TO 3 ORE/LITER AND 40 ORE/KILO, RESPECTIVELY (1 ORE EQUALS ABOUT US \$0.0018. THE IMPACT ON THE CONSUMER PRICE INDEX WILL BE NO MORE THAN 0.1 POINT AND FOR THE COMMODITIES CONCERNED AND INCREASE OF ABOUT 0.5 PERCENT. THE RESULT IS CONSIDERED A PERSONAL VICTORY FOR AG COMMISSIONER GUNDELACH AND HIS POLICY OBJECTIVES. CONSUMER GROUPS ALSO REGARD IT AS A BREAKTHROUGH FOR THEIR INTERESTS.

4. THE MAJOR OBJECTIVE FOR THE DANES WAS TO MAINTAIN STATUS QUO TO THE EXTENT POSSIBLE ON THE MONETARY COMPENSATORY AMOUNTS (MCA'S) PAID ON PIGMEAT EXPORTS. WITH THE UK, FRANCE AND ITALY PRESSING FOR A HAVLING OF THESE MCA'S, THE DANES ARE RELIVED TO END UP WITH ONLY A SEVEN PERCENT REDUCTION IN ADDITION TO THE 8 PERCENT REDUCTION RESULTING FROM THE GREEN POUND DEVALUATION EARLIER IN THE YEAR. PIG PRODUCERS CAN NOTE PRACTICALLY A ZERO IMPACT AS THE LOSS ON MCA'S WILL AMOST BALANCE WITH THE 2 PERCENT INCREASE IN THE BASE PRICE AND THE GAIN FROM INCREASED SUBSIDIES FOR LIQUID SKIMMILK FEEDING. THE DAIRY SECTOR, ON THE OTHER HAND, WILL BENEFIT BY A 3 PERCENT INCREASE.

5. DANISH AGMIN DALSAGER EXPRESSED HIS SATISFACTION WITH THE AGREEMENT TO THE DANISH FOLKETING (PARLIAMENT) AND DESCRIBED THE REULT AS WELL-BALANCED, GIVING ONLY MODEST INCREASES IN CONSUMER PRICES AS WELL AS ECONOMIC BENEFITS TO FARMERS. HE FEARED, HOWEVER, THAT FUTURE PRICE NEGOTIATIONS WILL BECOME INCREASINGLY DIFFICULT UNLESS THE MONETARY SYSTEM IS ADJUSTED TO BRING MORE ALIGNMENT TO THE EC CURRENCIES. A MAJORITY OF THE FOLKETING AGREED WITH DALSAGER THAT

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THE OUTCOME WAS SATISFACTORY FOR DENMARK.

6. FARM SPOKESMEN WERE LESS SATISFIED THAT THE RESULT PROVIDED COMPENSATION FOR ONLY HALF OF AGRICULTURE'S COST INCREASES, BUT EXPRESSED HOPE THAT THE INCOME RESTRAINT FORCED ON FARMERS WILL BE COPIED IN OTHER SECTORS OF THE ECONOMY. RECOGNIZING DALSAGER'S DIFFICULT DUAL POSITION AS PRES OF THE COUNCIL AND NATIONAL NEGOTIATOR, THE FARM LEADERS CONCLUDE THAT THE RESULT COULD HAVE BEEN MUCH WORSE AND THAT THEY CAN LIVE WITH IT.

7. THE DANISH DAIRY SECTOR IS CONCERNED RECURRENT AND PROSPECTIVE DEVELOPMENTS ON THE UK BUTTER MARKET. TOGETHER WITH GREEN POUND DEVALUATION AND REPORTED REDUCTION IN THE SPECIAL UK CONSUMER SUBSIDY FROM JANUARY 1979, UK CONSUMER PRICES WILL RISE BY \$250/TON OVER THE NEXT 7-MONTH PERIOD, RESULTING UNDOUBTEDLY IN A DROP IN CONSUMPTION. MAIN CONCERN IS NEW ZEALAND'S CURRENT 40 PERCENT SHARE OF MARKET, WHICH IS BEING COMPARED WITH 25 PERCENT SHARE AGREED TO DURING UK'S RENEGOTIATION OF MEMBERSHIP. COPA HAS TAKEN MATTER UP WITH GUNDELACH, WHO REPORTEDLY HAS PROMISED TO EXAMINE SITUATION WITH VIEW TO CORRECTION.

8. COMMENT: WE BELIEVE THAT THE DANISH FARM ORGANIZATIONS ARE BASICALLY SATISFIED WITH THE SMALL INCREASE AS A STEP TOWARD STRUCTURAL IMPROVEMENT IN THE EC (THAT IS, GRADUAL REDUCTION IN THE NUMBER OF THE INEFFICIENT FARMERS). ON THE OTHER HAND, THEY SEE THE

DANGER OF INCREASED NATIONAL SUPPORT IN OTHER ENC COUNTRIES ARISING FROM INADEQUATE FARMER COMPENSATION. IN ANY EVENT, THE RESULTS ARE CONSIDERABLY BETTER FOR DENMARK THAT ORIGINALLY ANTICIPATED. THERE HAS BEEN LITTLE COMMENT ON THE DROPPING OF AN MCA REDUCTION TIMETABLE, HITHERTO A MAJOR OBJECTIVE FOR THE DANES. LACK OF PROGRESS IN THE MONETARY AREA WAS OVERSHADOWED BY RELIEF ON AVOIDING GREATER LOSSES IN PIGMEAT ECA'S (ORIGINALLY ESTIMATED AT AN AMOUNT OF 400 MILLION KRONER ANNUALLY) AND, SECONDARILY, BY THE DEFERMENT OF A DECISION ON THE SEASONAL SUSPENSION OF NFDM INTERVENTION.
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